

KANSAS LEGISLATIVE RESEARCH DEPARTMENT

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To: Governor Mark Parkinson, Governor-Elect Sam Brownback, and Legislative Budget Committee

From: Kansas Legislative Research Department
Kansas Division of the Budget

Re: State General Fund Receipts Estimates for FY 2011 and FY 2012

Estimates for the State General Fund (SGF) are developed using a consensus process that involves the Legislative Research Department, Division of the Budget, Department of Revenue, and three consulting economists from state universities. This estimate is the base from which the Governor and the Legislature build the annual budget. The Consensus Group met on November 2, 2010, and slightly increased the estimate for FY 2011 and developed the first estimate for FY 2012.

For FY 2011, the estimate was increased by \$17.9 million, or 0.3 percent, above the previous estimate (made in April and subsequently adjusted for legislation enacted during the veto session). Those legislative adjustments to the April estimates included the impact of the sales and use tax increase that was effective July 1. The revised estimate of \$5.785 billion represents 11.4 percent growth above final FY 2010 receipts.

The initial estimate for FY 2012 is \$5.811 billion, which is \$25.4 million, or 0.4 percent, above the newly revised FY 2011 figure. Various factors influencing this growth rate in addition to the state of the economy include a net change of \$210.0 million in transfers out of the SGF (in compliance with current statutory requirements for FY 2012); the fully annualized impact of the sales and use tax increase; and several pieces of legislation enacted in 2005-2007 that are continuing to reduce relative to prior law the amount of estate, corporation franchise, and severance tax receipts deposited into the SGF.

Table 1 compares the new FY 2011 and FY 2012 estimates with actual receipts from FY 2010. Table 2 shows the changes in the FY 2011 estimates.

Economic Forecast for Kansas

While the US economy has been growing since the third quarter of 2009, the rate of growth has slowed somewhat in 2010. Concerns of a double-dip recession nevertheless have waned over the summer, and assumptions are that modest growth will continue in the national and state economies in 2011 and 2012. Current forecasts call for nominal Gross Domestic Product to grow by 3.6 percent in 2011 and 5.8 percent in 2012 (coming off a 3.4 percent increase in 2010); and nominal Kansas Gross State Product to grow by 4.1 percent in 2011 and 5.8 percent in 2012 (after a 4.3 percent increase in 2010). Significant uncertainty remains

relative to employment in several of the state's key sectors, including aviation manufacturing, though there is some evidence that rural areas of Kansas may be emerging from the economic downturn faster than the nation as a whole as a result of a weak dollar and strong demand for exports. The estimates contained in this memo are therefore premised on a continued recovery of the state's economy during the balance of FY 2011 and slightly accelerating growth throughout FY 2012.

Kansas Personal Income

Kansas Personal Income (KPI) in 2010 is expected to increase by 3.0 percent above the 2009 level (after having fallen by 1.4 percent in 2009). The forecast calls for KPI to grow by 3.4 percent in 2011 and 5.6 percent in 2012. Overall US Personal Income growth is not expected to differ significantly from the pattern in Kansas, with national estimates currently at 2.5 percent, 3.7 percent, and 5.9 percent for the same three years, respectively.

Employment

Data obtained from the Kansas Department of Labor verify that employment has stabilized relative to the fall of 2009. The most recent monthly data show that total Kansas non-farm employment from September 2009 to September 2010 increased by about 1,000 jobs. From its peak in April of 2008 to its low point in February of 2010, the state lost 75,800 jobs. Sectors with the heaviest job losses included professional and business services; financial activities; and leisure and hospitality. The current average estimates used by the Department indicate that the overall Kansas unemployment rate, which was 4.4 percent in CY 2008 and 6.7 percent in CY 2009, is expected again to be 6.7 percent in CY 2010 before declining to 6.5 percent in CY 2011. One positive sign relates to initial unemployment claims data, which throughout most of 2010 have been well below the same time periods studied for 2009. The national unemployment rate is expected to remain well above the Kansas rate, with the US rate now expected to be 9.5 percent in 2010 and 9.0 percent in 2011.

Agriculture

Although net farm income declined in 2009, the outlook for both 2010 and 2011 is considerably brighter as a result of higher commodity prices and relatively strong production. The All Farm Products Index of Prices received by Kansas farmers was 155 in September, up from 117 a year earlier. Wheat, corn, sorghum and soybean prices are significantly higher this fall than they were a year ago. Moreover, improved weather conditions in 2010 have contributed to a more efficient harvest. Livestock prices also remain higher thus far in 2010 than they were in 2009. High input prices, especially energy and fertilizer costs, and topsoil moisture deficiencies in certain areas of the state do remain as areas of concern for the agricultural sector.

Oil and Gas

Driven by foreign demand, the price of oil thus far in FY 2011 has remained higher than the price forecasted last April. The average price per taxable barrel of Kansas crude in FY 2011 is now estimated to be \$73, higher than the previous forecast of \$65 (and higher than the \$66.49 final average price for FY 2010). The FY 2012 price is expected to be \$75 per barrel. As always, significant political tensions in the Middle East and elsewhere provide a great deal of uncertainty about forecasting the price of this commodity. Gross oil production in Kansas, which

had been declining steadily for more than a decade until FY 2000, reversed that trend about five years ago and began increasing slightly. The current forecast of 39.0 million barrels for FY 2011 compares favorably to the 33.5 million barrels produced in FY 2005. Approximately half of all Kansas oil produced is not subject to severance taxation because of various exemptions in that law.

The price of natural gas is expected to average \$3.60 per mcf for FY 2011 before increasing to \$3.95 per mcf for FY 2012, based on an industry source's analysis of futures markets. Only about 10 percent of natural gas production is exempt from the severance tax. Factors considered for these estimates included the relationship between crude oil and gas prices, the current relatively high storage levels for gas, the overall economic outlook, and the impact of enhanced production from shale formations elsewhere in the United States. Kansas natural gas production in FY 2010 of 348 million cubic feet represented a significant decrease from the modern era peak of 730 million cubic feet in FY 1996 (largely as a result of depletion of reserves in the Hugoton Field). Production is expected to continue to decrease to 320 million cubic feet for FY 2011; and 300 million cubic feet for FY 2012.

Inflation Rate

The Consumer Price Index for all Urban consumers (CPI-U) is expected to increase by 1.6 percent in 2010 (after having fallen by 0.4 percent in 2009). Despite the continuation of aggressive monetary policy by the Federal Reserve, the latest forecast calls for inflation to remain at very moderate levels of 1.6 percent in 2011 and 2.4 percent in 2012.

Interest Rates

The Pooled Money Investment Board (PMIB) is authorized to make investments in US Treasury and Agency securities, highly rated commercial paper and corporate bonds, repurchase agreements and certificates of deposit in Kansas banks. Extremely low idle-fund balances in recent years have required the PMIB to maintain a highly liquid portfolio, which reduces the amount of return available to the pool. In FY 2010, the state earned only 0.96 percent on its SGF portfolio (compared with a 4.26 percent rate in FY 2008 and 2.20 percent in FY 2009). The average rates of return forecasted for FY 2011 and FY 2012 are 0.53 percent and 0.24 percent, respectively, and reflect the expected continuation of historically low interest rates and idle-fund balances.

	Economic Forecasts		
	<u>CY 10</u>	<u>CY 11*</u>	<u>CY 12*</u>
KPI Growth	3.0%	3.4%	5.6%
Inflation (CPI-U)	1.6%	1.6%	2.4%
	<u>FY 10</u>	<u>FY 11*</u>	<u>FY 12*</u>
SGF Interest	0.96%	0.53%	0.24%
Oil and Gas			
Oil Price per bbl	\$66.49	\$73.00	\$75.00
Gross Prod. (000)	39,310	39,000	39,000
Gas Price per mcf	\$3.74	\$3.60	\$3.95
Gas Taxable Value	1,162,951	1,036,800	1,066,500

*Estimated

State General Fund Receipts Estimates

FY 2011. The revised estimate of SGF receipts for FY 2011 is \$5.785 billion, an increase of \$17.9 million above the previous estimate. Receipts through October from tax sources collected had been running \$55.6 million above that forecast. The overall revised estimate is approximately \$592.7 million, or 11.4 percent, above actual FY 2010 receipts.

Each individual SGF source was reevaluated independently and consideration was given to revised and updated economic forecasts, collection information from the Departments of Revenue and Insurance, and year-to-date receipts.

The estimate of total taxes was increased by \$40.9 million, while the estimate of other revenue was decreased by \$23.0 million. Total taxes in FY 2011 (which include the impact of the sales and use tax increase and other tax law changes) are now expected to be \$609.3 million above FY 2010 collections, which were \$422.4 million below the FY 2009 figure.

On the positive side, the combined forecast for sales and compensating use taxes was increased by \$37.7 million. Receipts through the end of October indicated that the fiscal estimates associated with the rate increase may have been understated.

The corporation income tax estimate was increased by \$5.0 million as a result of an improved outlook for corporate profits and the assumption that refunds will be slightly below the record levels of the last two fiscal years. Receipts from this source through October were \$1.2 million above the previous estimate.

The estimate for individual income taxes remains unchanged from June. Final FY 2010 receipts from this source were \$91.8 million below the final estimate for that year.

The overall severance tax estimate was reduced by \$5.6 million. (The estimate for natural gas was decreased by \$12.2 million, while the oil estimate was increased by \$6.6 million.)

Other reductions of note based on new information included \$23.0 million in non-tax sources (\$15.4 million in net transfers; and \$7.6 million in interest).

Details of the current year's revised estimate are reflected in Table 2.

FY 2012. SGF receipts are estimated to be \$5.810 billion in FY 2012, a figure that is 0.4 percent above the new FY 2011 forecast. This result is heavily influenced by an increase of \$210.0 million in net transfers from the SGF which will occur absent any change in current law. Total tax receipts are expected to grow by \$240.6 million, or 4.3 percent, to reflect the modest but accelerating economic recovery. Other factors taken into account for FY 2012 include the continued phasing out of the estate and corporation franchise taxes.

Accuracy of Consensus Revenue Estimates

For 36 years, SGF revenue estimates for Kansas have been developed using the consensus revenue estimating process. Besides the three state agencies identified on the first page, the economists currently involved in the process are Joe Sicilian from the University of Kansas, Tracy Turner from Kansas State University, and Nancy McCarthy Snyder from Wichita State University. Each of the agencies and individuals involved in the process prepared

independent estimates and met on November 2, 2010, to discuss estimates and come to a consensus for each fiscal year.

STATE GENERAL FUND ESTIMATES

Fiscal Year	Adjusted	Adjusted	Actual Receipts	Difference from		Difference from	
	Original Estimate*	Final Estimate**		Original Estimate*	Percent	Final Estimate**	Percent
	Amount	Amount		Amount	Percent	Amount	Percent
1975	--	\$614.9	\$627.6	--	--	\$12.7	2.1%
1976	\$676.3	699.7	701.2	\$24.9	3.7%	1.4	0.2
1977	760.2	760.7	776.5	16.3	2.1	15.8	2.1
1978	830.1	861.2	854.6	24.5	3.0	(6.5)	(0.8)
1979	945.2	1,019.3	1,006.8	61.6	6.5	(12.5)	(1.2)
1980	1,019.3	1,095.9	1,097.8	78.5	7.7	1.9	0.2
1981	1,197.1	1,226.4	1,226.5	29.4	2.5	0.1	0.0
1982	1,351.3	1,320.0	1,273.0	(78.3)	(5.8)	(47.0)	(3.6)
1983	1,599.2	1,366.9	1,363.6	(235.6)	(14.7)	(3.2)	(0.2)
1984	1,596.7	1,539.0	1,546.9	(49.8)	(3.1)	7.9	0.5
1985	1,697.7	1,679.7	1,658.5	(39.2)	(2.3)	(21.3)	(1.3)
1986	1,731.2	1,666.4	1,641.4	(89.8)	(5.2)	(25.0)	(1.5)
1987	1,903.1	1,764.7	1,778.5	(124.6)	(6.5)	13.8	0.8
1988	1,960.0	2,031.5	2,113.1	153.1	7.8	81.6	4.0
1989	2,007.8	2,206.9	2,228.3	220.5	11.0	21.4	1.0
1990	2,241.2	2,283.3	2,300.5	59.3	2.6	17.2	0.8
1991	2,338.8	2,360.6	2,382.3	43.5	1.9	21.7	0.9
1992	2,478.7	2,454.5	2,465.8	(12.9)	(0.5)	11.3	0.5
1993	2,913.4	2,929.6	2,932.0	18.6	0.6	2.4	0.1
1994	3,040.1	3,126.8	3,175.7	135.6	4.5	48.9	1.6
1995	3,174.4	3,243.9	3,218.8	44.4	1.4	(25.1)	(0.8)
1996	3,428.0	3,409.2	3,448.3	20.3	0.6	39.0	1.1
1997	3,524.8	3,642.4	3,683.8	159.0	4.5	41.4	1.1
1998	3,714.4	3,971.0	4,023.7	309.3	8.3	52.7	1.3
1999	3,844.7	4,051.9	3,978.4	133.7	3.5	(73.4)	(1.8)
2000	4,204.1	4,161.0	4,203.1	(1.0)	0.0	42.1	1.0
2001	4,420.7	4,408.7	4,415.0	(5.7)	(0.1)	6.4	0.1
2002	4,674.5	4,320.6	4,108.9	(565.6)	(12.1)	(211.7)	(4.9)
2003	4,641.0	4,235.6	4,245.6	(395.4)	(9.3)	9.9	0.2
2004	4,605.5	4,450.5	4,518.7	(86.8)	(1.9)	68.2	1.5
2005	4,490.5	4,793.8	4,841.3	350.8	7.8	47.5	1.0
2006	4,834.0	5,308.7	5,394.4	560.4	11.6	85.7	1.6
2007	5,144.0	5,721.3	5,809.0	665.0	12.9	87.8	1.5
2008	5,700.4	5,736.3	5,694.9	(5.5)	-0.1	(41.4)	(0.7)
2009	6,185.7	5,709.7	5,589.0	(596.7)	(9.6)	(120.7)	(2.1)
2010	5,974.2	5,291.0	5,192.4	(781.8)	(13.1)	(98.6)	(1.9)

* The adjusted original estimate is the estimate made in November or December prior to the start of the next fiscal year in July and adjusted to account for legislation enacted, if any, which affected receipts to the SGF.

** The final estimate made in March, April, or June is the adjusted original estimate plus or minus changes subsequently made by the Consensus Estimating Group. It also includes the estimated impact of legislation on receipts.

The table (above) presents estimates compared to actual receipts since FY 1975, the fiscal year for which the current process was initiated. First, the adjusted original estimate is compared to actual collections and then the final estimate is compared to actual receipts.

Concluding Comments

Consensus revenue estimates are based on current federal and state laws and their current interpretation. These estimates will be further adjusted in mid-April prior to the conclusion of the 2011 Legislative Session.

Table 1
State General Fund Receipts
(Dollars in Thousands)

	FY 2010 (Actual)		Consensus Estimate November 2, 2010			
			FY 2011 (Revised)		FY 2012	
	Amount	Percent Change	Amount	Percent Change	Amount	Percent Change
Property Tax:						
Motor Carrier	\$ 24,993	(14.6) %	\$ 26,000	4.0 %	\$ 27,000	3.8 %
Income Taxes:						
Individual	\$ 2,418,208	(9.8) %	\$ 2,577,175	6.6 %	\$ 2,705,000	5.0 %
Corporation	224,940	(6.4)	260,000	15.6	275,000	5.8
Financial Inst.	16,515	(36.9)	20,770	25.8	21,000	1.1
Total	\$ 2,659,663	(9.8) %	\$ 2,857,945	7.5 %	\$ 3,001,000	5.0 %
Estate Tax	\$ 8,396	(62.7) %	\$ 3,000	(64.3) %	\$ -	(100.0) %
Excise Taxes:						
Retail Sales	\$ 1,652,037	(2.2) %	\$ 2,000,000	21.1 %	\$ 2,090,000	4.5 %
Compensating Use	205,540	(12.5)	280,000	36.2	295,000	5.4
Cigarette	99,829	(6.9)	97,000	(2.8)	97,000	-
Tobacco Products	6,352	10.9	6,600	3.9	6,800	3.0
Cereal Malt Bev.	1,989	(4.8)	1,900	(4.5)	1,900	-
Liquor Gallonage	17,953	(1.4)	18,800	4.7	19,200	2.1
Liquor Enforcement	54,827	1.9	58,000	5.8	59,000	1.7
Liquor Drink	8,930	(2.3)	9,300	4.1	9,500	2.2
Corp. Franchise	41,462	(0.6)	18,000	(56.6)	8,000	(55.6)
Severance	81,870	(34.1)	92,800	13.4	94,300	1.6
Gas	39,988	(45.8)	38,700	(3.2)	39,400	1.8
Oil	41,882	(17.0)	54,100	29.2	54,900	1.5
Total	\$ 2,170,788	(5.1) %	\$ 2,582,400	19.0 %	\$ 2,680,700	3.8 %
Other Taxes:						
Insurance Prem.	120,375	0.7 %	\$ 124,000	3.0 %	\$ 125,000	0.8 %
Miscellaneous	1,655	(7.7)	1,800	8.8	2,000	11.1
Total	\$ 122,030	0.5 %	\$ 125,800	3.1 %	\$ 127,000	1.0 %
Total Taxes	\$ 4,985,870	(7.8) %	\$ 5,595,145	12.2 %	\$ 5,835,700	4.3 %
Other Revenues:						
Interest	\$ 24,629	(61.6) %	\$ 17,400	(29.4) %	\$ 11,800	(32.2) %
Net Transfers	127,410	274.1	116,300	(8.7)	(93,700)	(180.6)
Agency Earnings	53,365	(34.0)	56,320	5.5	56,800	0.9
Total	\$ 205,403	14.7 %	\$ 190,020	(7.5) %	\$ (25,100)	(113.2) %
Total Receipts	\$ 5,191,273	(7.1) %	\$ 5,785,165	11.4 %	\$ 5,810,600	0.4 %

Table 2
State General Fund Receipts
FY 2011 Revised
Comparison of November 2010 Estimate to June 2010 Estimate
(Dollars in Thousands)

	FY 2011 CRE Est. as Adj. for Legis.	FY 2011 CRE Estimate	Difference	
			Amount	Pct. Chg.
Property Tax:				
Motor Carrier	\$ 24,000	\$ 26,000	\$ 2,000	8.3 %
Income Taxes:				
Individual	\$ 2,577,175	\$ 2,577,175	\$ --	-- %
Corporation	255,000	260,000	5,000	2.0
Financial Inst.	20,770	20,770	--	--
Total	\$ 2,852,945	\$ 2,857,945	\$ 5,000	0.2 %
Estate Tax	\$ 5,000	\$ 3,000	\$ (2,000)	(40.0) %
Excise Taxes:				
Retail Sales	\$ 1,971,211	\$ 2,000,000	\$ 28,789	1.5 %
Compensating Use	271,068	280,000	8,932	3.3
Cigarette	95,000	97,000	2,000	2.1
Tobacco Product	6,600	6,600	--	--
Cereal Malt Beverage	2,100	1,900	(200)	(9.5)
Liquor Gallonage	18,800	18,800	--	--
Liquor Enforcement	58,000	58,000	--	--
Liquor Drink	9,300	9,300	--	--
Corporate Franchise	17,000	18,000	1,000	5.9
Severance	98,400	92,800	(5,600)	(5.7)
Gas	50,900	38,700	(12,200)	(24.0)
Oil	47,500	54,100	6,600	13.9
Total	\$ 2,547,479	\$ 2,582,400	\$ 34,921	1.4 %
Other Taxes:				
Insurance Premium	\$ 123,000	\$ 124,000	\$ 1,000	0.8 %
Miscellaneous	1,800	1,800	--	--
Total	\$ 124,800	\$ 125,800	\$ 1,000	0.8 %
Total Taxes	\$ 5,554,224	\$ 5,595,145	\$ 40,921	0.7 %
Other Revenues:				
Interest	\$ 25,000	\$ 17,400	\$ (7,600)	(30.4) %
Net Transfers	131,694	116,300	(15,394)	(11.7)
Agency Earnings	56,320	56,320	--	--
Total Other Revenue	\$ 213,014	\$ 190,020	\$ (22,994)	(10.8) %
Total Receipts	\$ 5,767,238	\$ 5,785,165	\$ 17,927	0.3 %